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Shenzhen: The Southern Gateway to China

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Report Highlights:

Shenzhen is a thriving and rapidly developing city located on the border of the Chinese mainland in the southern province of Guangdong. It was one of the first Chinese cities designated as a Special Economic Zone open to the West back in the early 1980's. It quickly grew from a sleepy fishing village to a city of nearly 7 million. It records amongst the highest per capita incomes and GDP in all of China. Shenzhen is a city on the move both as a modern urban planning model for the rest of rapidly developing China and as a key player in international trade.

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The Southern Gateway to China

Shenzhen is located on the southern border of the Chinese mainland in Guangdong Province and shares over a dozen cross-border links by sea and land with Hong Kong SAR. In fact, it is only a half hour's drive from Kowloon, Hong Kong. This geographical location gives Shenzhen an advantage as serving as a major gateway to the world markets of both people and goods between China, particularly South China, and the rest of the world.



Once a small fishing village, in 1979 Bao'an County was renamed Shenzhen and promoted to prefecture level making it directly governed by Guangdong's provincial government. The following year it was proclaimed China's first Special Economic Zone (SEZ). After 25 years of rapid development from a small border village to a 7 million-plus metropolis, Shenzhen has established itself as one of the main economic centers in China and has laid the foundation to support a new phase of further growth. As a result, it has continuously attained one of the highest GDP and GDP per capita rankings in all of China.

The city can also boast of a modern overland transportation network with highways, expressways and railways reaching out in all directions to the rest of China. Two main Chinese railroad links, the Beijing-Canton Railway and the Beijing-Kowloon Railway, converge in Shenzhen. The combination of this overland network with the city's many harbors and ports allows Shenzhen to maintain its status as one of the main gateways for the rest of the world into the Chinese marketplace. In addition, it maintains modern postal and telecommunications facilities on par with industrialized nations around the globe.

The range of industries, many with direct foreign investment, located in Shenzhen is wide ranging. They include food processing, textiles, pharmaceuticals, metals and plastics, chemicals, real estate, finance, IT, transportation hubs as well as robust retail and HRI sectors.

Ships, Ships and More Ships

Shenzhen's geographical location allows it to operate some of the busiest ports in China giving it a ranking of the 4th busiest container port in the world in 2004. The ports of Yantian, Chiwan and Shekou combined to handle 13.65 million twenty-foot equivalent units (TEUs), up 28 percent year-on-year. Yantian's share was 6.26 million TEUs, up nearly 20 percent. In comparison, although Hong Kong moved 21.93 million TEUs in 2004 this was only a 7 percent annual increase.

Shenzhen is currently in the process of expanding the port of Yantian to include an international logistics center with an area of 300,000 m². The hope is that this will pave the way for the port to become a free-trade zone. The expansion is also expected to ease the constant traffic jams at the port enabling it to better serve the increasing demand of the Pearl River Delta. A decrease in traffic and more distribution facilities could increase efficiency and decrease costs. Expectations are that this will lead to yet higher volume growth for Shenzhen's ports with companies increasingly bypassing Hong Kong. The Shekou port also has a large container terminal, but is best known for its bulk handling facilities. The

port contains a 300,000 ton strategic grain reserve facility, flour mill, soybean crushing plant, vegetable oil refinery and food processing plants.

Haute Cuisine and Fashion: Evolving Tastes in the Long Gone Paddy Fields

Shenzhen residents maintain amongst the highest disposable incomes per capita in China. As a result, consumerism can be seen on par with that of any US city. Traditional Chinese tastes are evolving to encompass high fashion from Western brands and the local commodity markets are numerous and flourishing. Western-style shopping malls, department stores, franchised shops and wholesale shops are found in almost every corner of the city. The world's two largest retailers, Wal-Mart and Carrefour, operate very successful stores in Shenzhen. In fact, Wal-Mart's China headquarters are located in Shenzhen where its first Sam's Club was opened nearly 10 years ago. This store has nearly 300,000 members and 70% of the members own cars.

The HRI sector is also vibrant with many five and four-star hotels. Fine restaurants dot the city where one can find both Chinese and Western cuisine. Imported food and beverage products, many from the US, are found in a number of large grocery stores and hypermarkets. It appears this trend is likely to continue as economic development progresses. The increasing consumer demand and tastes for imported products along with the readily available distribution channels make Shenzhen a very viable market for US food and beverage exporters.

Of the many modern retail centers and supermarkets located in Shenzhen, two new examples of each are worth elaborating on.

The MIXc Mall: Shenzhen's Newest Retail Center

The MIXc Mall is a 188,000 m² super mall which opened in December of 2004. On January 1, 2005 MIXc management said over 120,000 customers entered the mall's doors. The daily average of customers is said to be around 50,000. The mall's name is derived from the multiple uses of the complex ranging from retail shopping, restaurants and bars to entertainment and recreation. In total, over 300 shops with both domestic and international brands have opened. There is also a 5 level parking garage containing 1,000 spaces.



The mall's architect was a US firm and, as such, has the look and feel of many high-end malls in the US. Long concourses and high ceilings permeate the six levels of the first phase of developers, China Resources (Holdings) Co., Ltd., undertaking. Phase II, to be completed by the end of 2008, will increase the total size to 500,000 m². It will include residential housing, office space, a hotel and an additional 2,000 parking spaces.

Many US brand names can be found at the mall. Notable US retailers include Anne Klein New York, Calvin Klein, Columbia, Nautica, Jeep and Mountain Hardwear. There is also an abundance of alternative activities when one needs a break from a day of shopping. The Golden Harvest Cinema is in its first phase of construction and currently operates a 7 screen

cineplex. There are 6 ordinary theatres and a VIP theatre with a total of 1,200 seats. The VIP theatre allows the audience to sit in a comfortable couch while watching a film with servers at the ready to fulfill their food and beverage needs. There is no fear of missing a vital part of the film to answer one's hunger pains in this type of atmosphere. We were told the cineplex serves US popcorn to its viewers.

Phase II of the cineplex will add another 5 screens and is planned to open in two years. Once finished, the Golden Harvest Corporation, based in Hong Kong, claims it will operate the largest modern cineplex of its kind in Southeast Asia. The World Ice Arena, an Olympic-sized skating rink, is also a place shoppers can take a break. There is also a skate and rental shop. Lessons are available for those not initiated in the fine art of gliding on ice with two steel blades.

The evolving culinary tastes of Shenzhen residents are represented by the large selection of restaurants found at the mall. The US restaurant company YUM! Brands, Inc. is once again showing its presence and belief in the South China market by opening 3 of its restaurant brands Pizza Hut, KFC and Taco Bell in the mall. Shenzhen's Taco Bell, titled Taco Bell Grande here, is only the second such restaurant in China. YUM! Brands, Inc.'s format for introducing Mexican-American food to the Chinese palette is in a more formal dining atmosphere with sit-down service and a broader menu than the typical fast food format found in the US. Chinese consumers can treat themselves to an imported Corona beer or enjoy a freshly made margarita. After their feast, they can walk across the hall to the largest Starbucks Coffee outlet in South China.

Ole: New High-End Supermarket

The Ole supermarket opened in December of 2004 in the mall and encompasses a space of 3,400 m². It is a new market concept featuring about 80% imported products implemented by former US/Cosco staff working for CRC Vanguard. The target demographic of the store is Shenzhen's growing number of middle to high income residents in their 30's or 40's. The majority of its products are either sourced through local or Hong Kong-based suppliers.



The market is CRC Vanguard's first store of its kind containing a majority of imported products. In May, another Ole market of the same design will be opened in Dongguan. Ole management indicated the number of customers has been good and foresees a steady increase as people become aware of the large selection of imported products on hand. CRC Vanguard plans to open more stores of a similar format throughout China in the coming months.

Site visits to the Ole market confirmed many US food and beverage products on the shelves. These products included such items as candy, snack foods, tree nuts, cereals and beverages. Although currently, the majority of the fresh produce and meat are domestic products, Ole

management indicated a likelihood of the introduction of imported meat in the future, namely US beef as soon as the China market re-opens. Washington State apples and Sunkist oranges were the only US fresh fruit found on the shelves.

Ole also contains a large section devoted to wines and liquors containing numerous US brands. US wines included Bel Arbor, Kendall-Jackson, Beringer, Glen Allen, Gallo Sonoma,

Ernest & Julio and Fetzer. Ole management indicated that its customers are greatly interested in wine but suggested further wine education would most likely be the best tool at generating greater demand and larger sales volumes than are now seen.

The Ole Market is the first of its kind in South China on this grand of scale. If successful, it may be the perfect showplace for US food and beverage exporters to introduce their products into China's marketplace.

A Quick Glance at Shenzhen: CY 2003	
Permanent Population	5.6 million
Total Area (sq. km)	1952.84
GDP	\$35 billion
GDP/Capita	\$6,650
Total Industrial Enterprisess	2318
Foreign-funded Indust. Enterprises	376
Major Industries	Food processing, IT, textiles, pharmaceuticals, metals and plastics, chemicals, real estate and finance
Key Agricultural Products	Vegetables, rice, aquaculture
China Headquarters for Major Food Retailers	Wal-Mart (US), Park-n-Shop (Hong Kong), ABest (China), CRC Vanguard (China), Min Run (China)

**Source: Guangdong Statistical Yearbook 2004 and
Shenzhen Statistics Yearbook 2004**

Helpful links for more information about the city of Shenzhen:

www.shenzhen.net

www.shenzhenwindow.net

www.sz.gov.cn/english